



# U.S. DEPARTMENT OF EDUCATION

## Semi-Annual Report to Congress

APRIL 1, 1983 - SEPTEMBER 30, 1983

NO. 7

(Submitted pursuant to Public Law 95-452)

Efforts by the Office of Inspector General this period to prevent and detect fraud, waste and mismanagement continue to provide significant benefits to the Department.

- o Management made commitments to seek recovery of \$15.9 million as a result of audits closed .....p. I-19
- o Continued commitment by the Department again resulted in all audits over six months old being resolved .....p. I-18
- o Recoveries on audits resolved amounted to \$15.5 million .....p. I-19
- o Investigations resulted in 105 indictments and 54 convictions/pleas .....p. II-1
- o Assessed fines and restitutions from investigative activities totaled about \$186,000. Cost avoidances amounted to \$388,000 .....p. II-1

## Office of Inspector General



## TABLE OF CONTENTS

	<u>Page</u>
Letter to the Secretary	
Executive Summary . . . . .	i
Chapter I - Audit Activities	
A. Introduction. . . . .	I-1
B. Summary Statistics. . . . .	I-1
C. Allocation of Audit Resources . . . . .	I-3
D. Highlights of Significant Audits. . . . .	I-4
E. Audit Resolution and Recovery of Funds. . . . .	I-18
F. Status of Prior Audit Recommendations . . . . .	I-19
G. Other Audit Matters . . . . .	I-19
Chapter II - Investigation Activities	
A. Introduction. . . . .	II-1
B. Summary Statistics. . . . .	II-1
C. Highlights of Significant Investigations. . . . .	II-2
D. Other Investigation Matters . . . . .	II-5
Chapter III - Management Improvement Activities	
A. Introduction. . . . .	III-1
B. Management Implication Reports. . . . .	III-1
C. OIG Integrity Guides. . . . .	III-1
D. Internal Control Reviews. . . . .	III-2
E. Other Management Improvement Activities . . . . .	III-2
Chapter IV - Other Matters	
A. Complaint Center. . . . .	IV-1
B. Review of Legislation and Regulations . . . . .	IV-1
C. President's Council on Integrity and Efficiency . . . . .	IV-1
D. Subpoenas Issued. . . . .	IV-2
E. Staffing and Budgetary Constraints. . . . .	IV-2
Appendices	
1. Reporting Requirements. . . . .	V-1
2. IG Integrity Guide - Student Financial Assistance . . . . .	V-2
3. Federal Audits of Education Department Programs . . . . .	V-6
4. Schedule of Accounts Receivable . . . . .	V-10





UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

OCT 31 1983

Honorable T. H. Bell  
Secretary of Education  
Washington, D.C. 20202

Dear Mr. Secretary:

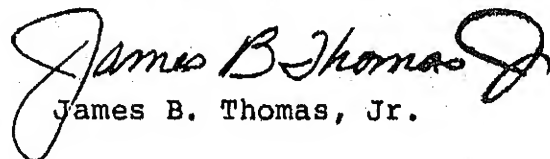
In accordance with the requirements of Section 5 of the Inspector General Act of 1978 (P.L. 95-452), I am submitting this semi-annual report on the activities of the Department's Office of Inspector General for the six-month period ending September 30, 1983.

The Act requires that you submit this report, along with any comments of your own, to appropriate Congressional committees and subcommittees within 30 days.

Our audit and investigative activities continue to provide the Department with significant results. Costs questioned or recommended for disallowance on audit reports issued this period amounted to \$42 million. Investigations of wrongdoing have led to 105 indictments and 54 convictions/pleas. These and other accomplishments are highlighted in the Executive Summary which begins on page i.

As we move into fiscal year 1984, I feel confident that continued progress will be made by the OIG and the Department in achieving our mutual goal of improving the economy, efficiency and effectiveness of Departmental programs and operations, and in preventing and detecting fraud and abuse.

Sincerely,

  
James B. Thomas, Jr.

## EXECUTIVE SUMMARY

This is the seventh semi-annual report issued by the Department of Education (ED) Office of Inspector General (OIG) pursuant to the provisions of the Inspector General Act of 1978 (P.L. 95-452). The report summarizes the activities and accomplishments of the OIG during the six-month period ending September 30, 1983. Reporting requirements mandated by the Act are indexed in this report on page V-1. Highlights of our activities this period follow.

- o We issued or processed a total of 1,659 audit reports on ED operations, grantees and contractors. These reports recommended disallowance of costs totaling \$14.1 million and questioned additional costs of \$27.9 million (page I-2). The reports also identified a number of opportunities for improvement in ED programs by Federal officials, State and local education agencies and others (page I-4).
- o A total of \$14 million, or about 47 percent, of the \$29.6 million recommended for disallowance or questioned on audits closed during the period, was sustained by program managers. Program managers identified additional amounts which should be recovered during the resolution process, bringing the total amount recoverable to \$15.9 million. Recoveries on closed audits this period totaled \$15.5 million (page I-19).
- o Continued emphasis on prompt resolution of audit reports on the part of the Secretary, program officials and the OIG has again enabled the Department to resolve all audits over six months old (page I-18).
- o OIG opened 220 investigative cases and closed 170. OIG investigations resulted in 105 indictments and 54 convictions. Fines, restitutions and settlements amounted to about \$186,000. In addition, investigative activities resulted in cost avoidances of \$388,000 (page II-1).
- o Significant emphasis was placed on management improvement activities during the period. The activities, which are described in Chapter III, highlight our efforts to better assist management in the conduct of the Department's programs and activities.



Examples of some of the more significant audits and investigations completed this period follow.

- o An audit of manually processed interest and special allowance payments made by the Department to Guaranteed Student Loan lenders disclosed that inadequate internal controls led to overpayments of over \$51 million. The overpayments and other errors noted also resulted in unnecessary interest costs to the government of about \$1.2 million. We recommended that the Office of Student Financial Assistance establish a number of specific actions to strengthen internal controls over the processing of these payments (page I-4).
- o Audits of collection activity on defaulted student loans in two regions disclosed that improved collection practices and better utilization of personnel and computer resources could significantly increase repayments. In one region, we estimate that repayments could be increased by as much as \$4 million annually. We recommended that a number of improvements be made in collection policies, procedures, and resource utilization (page I-5).
- o An audit of one school district's administration of the Title I program disclosed that \$816,000 was improperly used to provide services already required under a plan to achieve compliance with Title VI of the Civil Rights Act of 1964. Another \$328,000 was improperly used to supplant State and local funds. We recommended that approximately \$1.1 million be refunded by the State agency (page I-11).
- o Two audits of one State's administration of the Library Services and Construction Act disclosed that the State's oversight of funds and administration of the program were inadequate to ensure compliance with Federal statutes and regulations. We questioned or recommended for disallowance costs totaling \$10.9 million and recommended that the State implement an adequate system to account for Federal funds (page I-15).
- o Our nationwide effort to identify and prosecute aliens who have fraudulently obtained student financial assistance has resulted in an additional 53 indictments this period, bringing the total indictments under this initiative to 209. The individuals involved have fraudulently obtained about \$1,000,000 in student financial assistance (page II-3).

- o Twenty-five individuals have been charged with fraud against the U.S. Department of Education and the State's guaranteed student loan program. The indictments and arrest warrants charged the subjects with fraudulently obtaining student loans in amounts ranging from \$1,500 to \$7,500. To date the fraud, which occurred at four local colleges, involves approximately \$125,000. Many of the subjects of the investigation allegedly conspired together to submit the false applications (page II-3).
- o In May 1983, a woman pleaded guilty to 14 counts of bank fraud. She used 14 fictitious identities in obtaining \$17,000 in guaranteed student loans. She actually applied for \$38,000, but action by the Office of Inspector General prevented the disbursement of \$21,000. In June 1983, she was sentenced on 14 counts of bank fraud. She received a three-year suspended sentence and three years' probation (page II-4).
- o In August 1983, the owner of a beauty school and school manager each pleaded guilty to a one-count information charging them with conspiracy to defraud the U.S. Department of Education. The pair admitted to drawing Title IV student financial aid funds in the names of students who did not attend the school and falsely certifying that they had attended the school. The fraudulently obtained money was used to cover the financially troubled school's operating expenses (page II-4).





## CHAPTER I

### AUDIT ACTIVITIES

#### A. INTRODUCTION

Audit activities during this period provided the Department with a varied program of internal and external audits and again identified substantial opportunities for improving the economy, efficiency, and effectiveness of programs administered by the Department and its recipients. Our audits also included numerous recommendations directed toward recovering Federal funds which were not expended in accordance with program requirements.

Summary statistics and highlights of major audits and related activities are presented in the following sections.

#### B. SUMMARY STATISTICS

Audit statistics and other related operational data are depicted in the following charts.

<u>Comparative Schedule of Audit Activity</u> (Dollars in Millions)			
	<u>Six-Month Periods Ending</u>		<u>FY 83</u>
	<u>3/31/83</u>	<u>9/30/83</u>	<u>Totals</u>
Reports Issued/ Processed	2,542	1,659	4,201
Recommended Costs Questioned/ Disallowed	\$20.6	\$42.0	\$62.6
Recommended Costs Questioned/ Disallowed Sustained	\$48.8	\$14.0*	\$62.8
Potential Cost Avoidance	\$ 4.3	\$ 5.6	\$ 9.9
Actual Cost Avoidance	\$ .5	\$ 1.1	\$ 1.6
Recoveries	\$ 4.0	\$15.5	\$19.5

\*Does not include an additional \$1.9 million identified by management during the audit resolution process.

Reports issued or processed this period include audits of grantee operations and institutions of higher education, internal reviews of Departmental programs and operations, and audits of ED contractors. Costs recommended for disallowance or questioned in these reports represent Federal funds which were not spent in accordance with legislative requirements or with the terms of grant and contract provisions.

The fluctuations in reports issued, recommended costs questioned/disallowed, etc., from one period to another are typical and reflect the cyclical nature of our audit work and related results achieved. Following is a schedule by operating component showing audit reports issued or processed by OIG and related costs recommended for disallowance or questioned.

<u>SCHEDULE OF COSTS DISALLOWED/QUESTIONED</u> <u>BY OPERATING COMPONENT</u> (Dollars in Millions)			
<u>Action Office</u>	<u>Number of Reports</u>	<u>Recommended Cost Disallowances</u>	<u>Costs Questioned</u>
Postsecondary Education	1,430	\$ 3.5	\$ 7.1
Assistance Management and Procurement Services	166	1.3	8.2
Elementary and Secondary Education	16	2.6	2.1
Educational Research and Improvement	14	3.8	7.9
Other	<u>33</u>	<u>2.9</u>	<u>2.6</u>
TOTALS	<u>1,659</u>	<u>\$14.1</u>	<u>\$27.9</u>

Some of the more significant audits in these program areas are described in the next section of this report.

Audit reports issued this period represent both those audits completed by our own staff and those processed by us which were completed by other Federal auditors, State and other governmental auditors, and independent public accountants. Following is a schedule showing the sources of all reports issued or processed and costs recommended for disallowance or questioned by Federal or non-Federal audit groups.

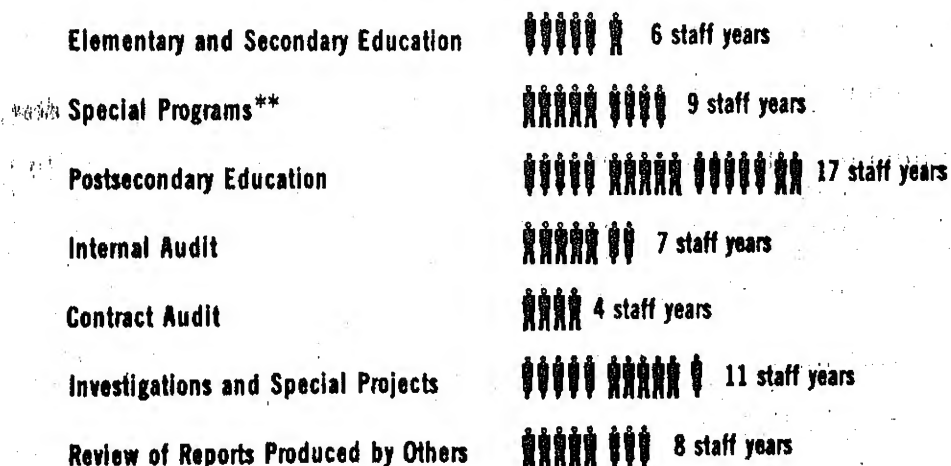
**SOURCE OF AUDITS ISSUED**  
(Dollars in Millions)

	<u>Number of Reports</u>	<u>Recommended Cost Disallowances</u>	<u>Costs Questioned</u>
<b>Federal Auditors</b>			
ED-OIG	80	\$10.5	\$15.9
Others	42	.8	2.1
<b>State and Other Non-Federal Auditors</b>	194	.1	.8
<b>Independent Public Accountants</b>	<u>1,343</u>	<u>2.7</u>	<u>9.1</u>
<b>TOTALS</b>	<u><u>1,659</u></u>	<u><u>\$14.1</u></u>	<u><u>\$27.9</u></u>

**C. ALLOCATION OF AUDIT RESOURCES**

Direct audit time devoted to major Departmental programs and activities is depicted below.

**UTILIZATION OF AUDIT STAFF RESOURCES BY MAJOR CATEGORY  
FOR SIX MONTH PERIOD\***



 each figure represents one staff year

\* Represents only direct audit time

\*\* Includes Vocational and Adult Education, Educational Research and Improvement, Vocational Rehabilitation, Special Education and Bilingual Education

As indicated above, audit resources were primarily used in the areas of Special Programs, Postsecondary Education, and Investigations and Special Projects. The allocation of our audit resources in these areas continues to be effective through recovery of costs disallowed and questioned. More importantly, efforts in these areas have provided ED management with numerous recommendations for correcting underlying conditions contributing to the problems noted, thereby avoiding unnecessary costs in the future.

In keeping with our audit oversight responsibilities, we also used approximately eight staff years of effort on desk reviews and quality control reviews of audit reports prepared by others. These reviews are made in conformance with the Inspector General Act, which requires that we ensure that the audit reports and actual audit work performed for us by non-Federal auditors meet the standards established by the Comptroller General for audits of governmental organizations, programs, activities and functions.

#### **D. HIGHLIGHTS OF SIGNIFICANT AUDITS**

The following examples highlight some of the more significant findings contained in audit reports issued this period by the OIG. The examples, grouped by major program areas within the Department, discuss a wide range of areas needing improvement in the administration of ED programs and activities by State and local governments, educational institutions, profit and non-profit organizations, and Departmental headquarters and regional offices.

##### **1. Internal Audit**

The OIG conducts internal audits of ED organizations and their administration of the Department's programs and operations. These audits provide ED management with important recommendations for improving economy, efficiency and effectiveness in the operation of the Department and its programs. Therefore, they comprise a major part of the OIG's mission. Several of the more significant of these are described below.

##### **a. Review of Manually Processed Loan Payments Identifies Overpayments of \$51 Million and Recommends Improvements in Processing**

Under the Guaranteed Student Loan (GSL) program, the Department of Education subsidizes loans made to eligible students by paying a fixed rate of interest to lenders while the borrowers are in school and during a grace period following graduation or withdrawal. The Department also pays a quarterly "special allowance" to compensate lenders for the difference between the fixed loan rates and market interest rates. In 1982, total interest and special allowance payments amounted to \$2.6 billion, making this one of the Department's largest programs. These payments are

processed by the Office of Student Financial Assistance through either its manual system, which accounted for some \$1.6 billion in 1982, or its automated system, which accounted for an additional \$1 billion.

Because of the high dollar volume of interest and special allowance payments, and their vulnerability to waste or misuse, OIG initiated audits of both systems and completed its audit of the manual payments system this period. In this audit, we noted that controls over the manual processing system were inadequate to assure the propriety and accuracy of interest and special allowance payments made to GSL lenders. As a result, we found that over \$51 million in interest and special allowance overpayments were made by the Department or returned by lenders in fiscal year 1982. We also identified some \$1.2 million in unnecessary interest costs incurred by the Government due to the overpayments, and errors in processing checks and penalty interest. Thus far, recoveries on overpayments directly identified by our audit have amounted to over \$5.8 million.

Our audit included many recommendations for changes to policy and procedures to strengthen internal controls in the system and to address such problems as the following: inaccurate compilation and verification of payment amounts due, inadequate control over the cancellation and replacement of checks to assure proper disbursement, occurrences of double payments and inadequate accountability, and untimely processing of checks received from lenders.

The program office has generally concurred with the observations and recommendations contained in our audit report, and has agreed to take the necessary corrective action. In several instances, the program office initiated needed procedural changes before the report was completed.

b. Procedures Used by Regions to Collect Defaulted Loans are Inadequate

During this reporting period, we completed audits of student loan collection activities in two OSFA regional offices as part of a nationwide review of collection activity. Under the National Direct Student Loan (NDSL) and Federally Insured Student Loan (FISL) programs, three OSFA regions have responsibility for conducting all collection efforts on defaulted loans submitted by institutions or lenders and accepted by the Department. Because such overdue loans represent many millions of dollars, working to get these accounts into repayment status is an important ED initiative.

Our audits in two of three regions involved in collection activity concluded that collection efforts were generally conducted in accordance with regulations, guidelines and directives. We found that the efficiency and effectiveness of collections could be increased, however, by improved collection practices and better utilization of personnel and computer resources.

We noted that, while a relatively small percentage of loans accounted for the majority of loan dollars, all loans received similar treatment without regard to the size of the loan balance. We recommended therefore that collection efforts in both regions be targeted to the larger loans, and that the cost-effectiveness of collecting on small loans be analyzed for the purpose of developing a realistic write-off policy for these small amounts. In one region, we estimated that more timely and effective collection procedures could increase repayments by some \$4 million annually.

We also noted that personnel were being used ineffectively in both regions. In one region, more than 10,800 work hours were expended by collection clerks annually in unnecessary and duplicative work. In addition, collectors were performing duties which could have been performed by the clerks. Because of this inefficient use of personnel, loans were often transferred prematurely to private collectors before full collection efforts had been taken by the regional office. Consequently, private collection costs were unnecessarily increased.

Also in both regions reviewed, inadequate automated systems further hindered the effectiveness of collection activity. Because collectors did not have immediate access to data maintained on the computer, they experienced prolonged delays in obtaining loan account data and responding to inquiries by borrowers. Due to deficiencies in one region's system, \$2 million was not properly credited to borrowers' accounts, thus requiring additional time and resources to correct the problems.

Our audit reports recommended improvements to address the deficiencies noted in collection policies, procedures and resource utilization. Both regions were very receptive to our findings and recommendations and have instituted actions to implement our recommendations.

c. Audit of ED's Institutional and Lender Reviews Discloses Procedural Weaknesses

We recently issued a consolidated report on the effectiveness of institutional and lender reviews performed by the Office of Student Financial Assistance (OSFA) in four regions. The report consolidated findings having nationwide implication contained in previously issued reports on the four regions. These audits, several of which were discussed in previous semi-annual reports, were conducted in response to a request from OSFA.

We found that the regional offices generally performed institutional and lender reviews in accordance with applicable procedures and regulations, despite staff shortages and limited timeframes. Nevertheless, we noted a number of significant deficiencies, namely, that (1) the reviews lacked in-depth review of major problem areas discovered, (2) the review procedures did not

address screening for potential fraud, and (3) general improvements were needed in the quality, effectiveness and timeliness of the reviews.

Specifically, we noted that because of problems with OSFA's system of billing lenders for FISL insurance premiums, lenders were not always being billed for the full amount they owed to ED. Further, we reported that special allowance payments were being made to lenders even though they were not exercising due diligence in performing collection activity on such loans. We also noted that OSFA's broad-based approach to these reviews allowed significant problem areas to go undetected or not be fully developed. Additionally, the broad-based approach permitted duplication with areas covered in the required periodic audits of the institutions.

Recommendations in our report addressed each of these findings and were generally well received by OSFA. The program office also advised that it had already taken certain actions to implement our recommendations.

d. Update on Computer Match Project - Federal Employees in Default on Student Loans

In our prior semi-annual report (page II-15), we described a computer matching project to identify Federal employees who are in default on student loans. The match, conducted in August 1982, identified 46,860 current and retired Federal employees, who are holding 50,393 defaulted loans valued at almost \$68 million. After loan accounts were reviewed to assure that the records were accurate, the Department of Education initiated follow-up and collection actions to ensure maximum recovery of the delinquent debts. Each defaulter was mailed a notice requesting that he or she contact the Department to resolve the debt. Every effort was made to work with those who denied or disputed their liabilities.

As of the end of this reporting period, the project had resulted in 1,965 accounts being paid in full with \$946,000 collected. Repayments are currently being made on 3,615 accounts totaling over \$5 million, \$1.4 million of which has already been collected, bringing the total amount collected under the initiative to about \$2.3 million.

2. Postsecondary Education

The Office of Postsecondary Education administers programs of financial assistance to students and to institutions, providing aid in the form of grants, direct loans, interest on loans, loan guarantees and earnings through work-study programs. In fiscal year 1983, programs of postsecondary education accounted for \$7.2 billion of the Department's appropriation, making this the largest program area in ED.



During the six-month period covered by this report, the OIG issued or processed 1,430 audit reports addressing postsecondary education programs. These reports, the bulk of which concerned programs of student financial assistance, recommended the disallowance of \$3.5 million and questioned \$7.1 million.

In addition to audit work involving the student financial assistance programs, the bulk of OIG's investigative workload is comprised of cases in this area. (Refer to Chapter II of this report for more information.) Currently, some 8,000 postsecondary institutions participate in these programs.

a. \$2.7 Million Questioned as a Result of School's Failure to Comply with Due Diligence Requirements

An audit of a postsecondary institution disclosed that the school had failed to exercise due diligence in attempting to collect on loans in default under the National Direct Student Loan (NDSL) program. We found that major weaknesses existed in virtually all phases of the due diligence process, both within the institution and at its fiscal agents. We noted that these weaknesses may have contributed to higher yearly default rates than necessary, thereby reducing both loan collections and funds available to the institution for future NDSL loans.

Specifically, we noted that the school did not have an adequate monitoring system in place to ensure that either its component colleges or the outside agents carried out their respective due diligence tasks in accordance with the applicable Federal requirements. Consequently, critical aspects of the due diligence process were not properly carried out. For example, exit interviews required prior to the borrower's separation date were not always conducted. Further, the billing service was often not advised in a timely manner of those borrowers who were no longer enrolled at least half time at the college. Inadequate controls in these areas impeded the billing cycle and undoubtedly contributed to the institution's high NDSL program default rate of over 20 percent yearly for the four award years ended June 30, 1982.

Because an institution's receipt of its Federal capital contribution under the NDSL program is predicated on compliance with the applicable due diligence requirements, we questioned the entire contribution for the award year 1981-82, amounting to \$2.7 million. We also recommended that the school strengthen its due diligence policies, procedures and controls at both its central administration and college levels, and that it establish an effective system for monitoring the due diligence tasks being carried out by the colleges and outside fiscal agents.

b. Deficiencies in Administration of the Pell Grant Program Lead to Recommended Disallowed and Questioned Costs of \$344,000

In another audit of a postsecondary institution, we found a number of weaknesses and areas needing improvement in the school's administration of the Pell Grant program. These deficiencies were disclosed through our review of 70 case files covering the award year 1981-82. This review revealed one or more discrepancies in 57 cases, i.e., 81 percent of the sample. The statistical projection of discrepancies noted in this sample brought the total liability for unallowable and questionable disbursements to \$344,000.

Deficiencies noted in the case files included lack of high school diplomas or equivalents, students receiving aid without indication of satisfactory academic progress and conflicts between information on the Student Eligibility Reports and that in the student files. As a result of the deficiencies identified, we recommended that the school review all of the Pell Grant awards for the period audited to establish its total liability to the Department, and/or refund the \$344,000. We also recommended that the institution strengthen its policies, procedures, and controls for administering the Pell Grant program.

c. \$479,000 Disallowed or Questioned Due to Weaknesses in the Administration of Special Services for the Disadvantaged Program

Our audit of the Special Services for the Disadvantaged program at one school noted numerous deficiencies and areas needing improvement. This program, the purpose of which is to aid students with academic potential to begin, continue or resume their postsecondary education, is authorized under Title IV of the Higher Education Act, as amended.

Based on a random sample of student files, we found that 233 of the 1,780 students served were not eligible to participate in the project. Also based on our sample, 267 students who were probably eligible were not served, and 299 students received services which failed to address their assessed educational needs. Thus, primary goals and objectives of the project were not attained in fiscal years 1980 and 1981.

We also found that Special Services funds were used to provide (i) tutoring to target students while comparable services were available to non-target students from State and local funds, and (ii) instruction in workshops and classes open to all students which were either required to be provided from State and local funds or prohibited by Federal regulations. As a result of these deficiencies and those noted above, we recommended the disallowance of \$116,000 and questioned \$363,000. We also made numerous procedural recommendations to the school.

d. Audit Discloses University is Not Using Resources to Pay Off Defaulted College Housing Loan

Our audit of a university's participation in the College Housing Loan program revealed that the school was not using its current revenues to reduce the balance of outstanding housing loans in default. We recommended that revenues in excess of \$1 million from a land sale be applied to pay off the loans. Under the program, the Department makes long-term, low interest loans available for the construction of housing at postsecondary institutions.

Our audit disclosed that the university had executed an agreement to sell 40 acres of land for \$10.9 million, and was due shortly to receive a \$1 million option payment for the sale. We also determined that revenues already pledged to make payments on the housing loans had been used for general operations. In addition, one pledged facility was used without reimbursement, and maintenance and operation expenses were not properly charged to the college housing project.

We recommended, in view of the university's 10-year delinquency in repaying the loans, that the proceeds from the land sale be used to bring the debt service payments current and establish a fund to repay the balance, and that the pledged revenues and maintenance and operation expenses amounting to a total of \$247,000, be deposited to the loan accounts.

3. Elementary and Secondary Education

Major program areas administered by the Office of Elementary and Secondary Education include: (1) assistance in operating programs for educationally deprived children, (2) assistance to meet the special educational needs of migratory children, and (3) assistance to State and local school districts to improve educational quality. Grants for disadvantaged and migratory children are authorized under Chapter 1 of the Education Consolidation and Improvement Act of 1981 (ECIA) (formerly Title I of the Elementary and Secondary Education Act). Grants to improve educational quality are authorized under Chapter 2 of ECIA.

Chapter 1 grants to local educational agencies (LEAs) provide Federal assistance for planning and operating programs for educationally deprived children in areas having a high concentration of children from low-income families. For school year 1983-84, approximately \$2.7 billion was awarded through the State departments to LEAs to develop and implement projects to fulfill the intent of Chapter 1. In addition to these local educational agency grants, Chapter 1 provides for Federal assistance to State educational agencies (SEAs) to meet the special educational needs of children of migratory workers. For school year 1983-84, approximately \$255 million was awarded to 51 SEAs to provide services to 500,000 migratory children identified by participating States.

Chapter 2 consolidated numerous education grant programs into a single block grant to States. The purpose of Chapter 2 is to improve elementary and secondary education in accordance with the educational needs and priorities established by participating State and local educational agencies. For school year 1983-84, \$451 million was awarded for the Chapter 2 State block grant program.

We issued 16 reports on programs in Elementary and Secondary Education during this reporting period. These reports recommended disallowances of \$2.6 million and questioned costs of \$2.1 million.

a. Recommended Disallowance of \$1.1 Million in Title I Funds

In an audit of a local school district's administration of Title I, we found that \$1.1 million in Title I funds for an English to Speakers of Other Languages project was not expended in accordance with applicable Federal criteria. Our audit disclosed that the school district had used the funds to support other projects or to supplant State and local funds.

Specifically, \$816,000 in Title I funds was used to provide services already required under a voluntary plan to achieve compliance with Title VI of the Civil Rights Act of 1964. In addition, the school district used \$328,000 to supplant State and local funds available to high schools for the project. We recommended that the total of approximately \$1.1 million be refunded to the Federal government by the responsible State agency.

While the agency agreed in part with our findings, it suggested that we revise our recommendations in light of the fact that the project is still open and alleged deficiencies in the funding structure can be remedied. Program officials are currently working with the State agency to resolve the problems noted.

b. State Title I Administrative Costs Improperly Charged

In our audit of one State's administration of the Title I program, we found that joint administrative costs were charged on the basis of anticipated rather than actual effort. Based upon our findings, we recommended the refund of \$473,000 to the Federal government.

Although the State charged a total of \$3.8 million to the projects in question, it was unable to identify the portion of joint administration costs attributable to the Title I program. Consequently, OIG auditors analyzed secondary records to arrive at a reasonable estimate of costs properly chargeable to Title I and concluded that about \$584,000 could not be supported. Because our audit also identified indirect costs of approximately \$111,000 underclaimed by the State, we recommended that the State refund only the difference, i.e., \$473,000.

The State generally concurred with our findings but did not agree with the methodology used to assign administrative costs. Program officials are currently working with the State to resolve the findings and recommendations contained in this report.

c. Review Indicates Success of State's Implementation of Chapter 2

One review was made primarily to determine whether a State department of education and selected local education agencies (LEAs) within the State had properly implemented the newly established Chapter 2 program. Because Chapter 2 is a block grant program and represents a substantially different form of funding from that which existed previously in ED, our review was important in identifying any early misunderstandings or difficulties experienced by the States in implementing the new requirements.

Our audit revealed that the State had properly implemented the program and was administering it in accordance with the statutes and regulations. In all respects - including establishment of a State Advisory Committee, development of a formula to distribute funds to the LEAs, provision of technical assistance to the LEAs, etc. - we found the State's administration of the program to be proper and in accordance with the applicable Federal criteria. We also determined that the State had maintained adequate records for fiscal control and fund accountability for the program.

d. State Migrant Education Program Funds Reduced by \$10.8 Million Due to Eligibility Questions

In our two most recent semi-annual reports, we have reported on audits involving the migrant education program, funded under Chapter 1 of the Education Consolidation and Improvement Act of 1981. The more significant of these involved our audit report on the eligibility of children served by the migrant education program in one State. Results of that review raised questions about the eligibility of children served under the program. Additionally, we found that in many instances, there was no documentation available to support the eligibility determinations. We therefore recommended for disallowance or questioned funds totaling more than \$30 million.

The results of this audit raised concern on the part of ED program officials with regard to the accuracy of the data used to generate the State's 1983-84 allocation, and was a major factor in a decision by Department officials to reduce preliminarily the State's award of migrant education funds for the current year. The State was notified that \$10.8 million was being held in reserve by the Department and was requested to provide ED with adequate documentation to verify the eligibility of children included in the State's migrant child count.

Our audit activity in the migrant education program has thus motivated closer scrutiny of the State submission for funding under the program, thereby helping to ensure that Federal funds are targeted to eligible recipients.

e. Migrant Education - Recommended Refund of \$324,000 Due to Improper Procurement Practices

As a result of our recent audit of one school district's administration of the migrant education program, we recommended that the State refund \$324,000 to the Federal government. The audit was initiated in response to a complaint received through the OIG hotline alleging the misuse of migrant education funds by the school district.

Our audit substantiated the allegations and confirmed that the district had employed improper procurement practices in awarding subcontracts. These practices included: splitting contracts in violation of the district's own regulations, contracting without prior Federal approval, and possible conflict of interest. These practices were used to award subcontracts totaling \$116,000, including indirect costs.

We also identified improper expenditures for inappropriate test materials and training, attendance at conferences not directly related to the program, unallowable summer stipends and excessive rates for consulting services, bringing the total recommended for refund to \$324,000. We also recommended that the State take necessary steps to ensure improved subgrantee procedures for subcontracting and other noted areas of weakness.

4. Vocational Education and Other Programs

The vocational education program is administered by the Office of Vocational and Adult Education. The overall goal of the program is to prepare students at the secondary and postsecondary levels for employment in occupations not requiring a four-year college degree. Federal grants are provided to the State to:

- o Extend, improve and, where necessary, maintain programs of vocational education;
- o Develop new programs of vocational education;
- o Overcome sex discrimination and sex stereotyping in vocational education programs; and
- o Provide part-time employment for youths who need the earnings from such employment to continue their vocational training on a full-time basis.



The intent of the program is that all persons have access to vocational training which is suited to their needs and the requirements of available job opportunities. Particular emphasis is placed on meeting the needs of the disadvantaged and handicapped through special programs and services that will enable the participants to succeed in regular vocational education programs. The fiscal year 1983 appropriation for vocational education was \$729 million, including \$665 million for State grants and innovative programs.

Audits in several States highlighted below indicate the need to improve the planning and management of vocational education programs. The problem of lapsed funds carried over from one year to the next, described in some of our earlier semi-annual reports, was also noted in several audits during this period. During this reporting period, we issued five reports which recommended disallowances of \$2.6 million and questioned costs of \$2.4 million.

This section also includes a discussion of two audits of a State's administration of the Library Services and Construction Act.

a. State Vocational Education Programs - Failure to Adequately Consider Labor Market Needs

Audits of the administration of the vocational education program in three States disclosed that each had failed to adequately assess local labor market needs in planning their programs and course offerings. Highlights of these audits follow:

- o In one State, we found that a major goal of the program as stated in the regulations - "that persons of all ages . . . will have access to vocational training or retraining which is of high quality . . . (and) realistic in the light of actual or anticipated opportunities for gainful employment . . ." - was not being achieved. This was because the State did not adequately evaluate the effectiveness of each vocational education program with regard to student employment success. We recommended that the State more effectively evaluate the success of its program and establish more realistic goals.

We also found that the State's review of activities by subgrantees was inadequate to assure that vocational education funds were being spent in accordance with Federal requirements. We recommended that the State increase its monitoring of subgrantees in the area of financial activities.

- o In a second audit, the State did not require its local educational agencies (LEAs) to include local labor market needs in order to justify their ongoing programs. Consequently, there was little assurance that vocational education funds were being expended for needed programs.

We also found that the State had obligated \$1.4 million in Federal funds on construction contracts after the period of fund availability had expired. We recommended that the State take corrective action to ensure that labor market needs are adequately addressed in establishing its future vocational education programs, and that it return the \$1.4 million to the Federal government.

- o In a third State, we also found weaknesses in the assessment of labor market needs. Specifically, our review disclosed that programs and courses offered to vocational students generally did not reflect the State's employment needs. Data on students completing the program showed that they had an extremely low rate of placement in fields related to their training.

Our review also disclosed improper reporting and utilization of funds for LEA projects after the period of availability had expired, including the improper obligation of \$865,000 in lapsed funds by seven LEAs. We recommended that the State improve its program planning, adjust its accounting procedures in line with Federal regulations and return the improperly obligated funds to the Government.

b. Library Services and Construction Act - \$10.9 Million  
Questioned or Recommended for Disallowance

Two audits this period of one State's administration of the Library Services and Construction Act (LSCA) - one dealing with program implementation and administration, the other with accountability and reporting of funds - recommended disallowances or questioned a total of \$10.9 million. Between the two audits, we concluded overall that the State's oversight of funds and administration of the LSCA program were inadequate to ensure compliance with Federal statutes and regulations.

The LSCA program, authorized by Public Law 84-597, as amended, provides funds to help States establish, extend and improve public libraries in areas without these services or in which these services are inadequate. These were among the first Federal audits conducted of the LSCA program since its inception in 1964. As such, they constitute an important review of the program's success and possible problems with State implementation.

As a result of the two audits, we questioned the entire Federal allocation of \$10.9 million received between 1977 and 1980 because the State's accounting system was inadequate to determine the accuracy of costs or to determine whether funds were used for the purposes intended. Our reviews also disclosed that the State inappropriately used LSCA funds for projects which were either not in accordance with the intent of the program or were not expended



in accordance with the program plan. For example, \$2.5 million awarded under one title of the Act was improperly used to fund projects under another title. Further, the State used \$3.6 million to fund projects which benefited both public and non-public libraries and did not account for the proportional benefit to public libraries.

In addition to questioning or recommending for disallowance costs totaling \$10.9 million, we recommended that the State implement an adequate system to account for Federal funds awarded in the future. Program officials are currently working to resolve the findings and recommendations contained in the two reports.

## 5. Contracts and Discretionary Grants

Contracts and discretionary grants are awarded annually by the Department to State and local governments, educational institutions and profit and non-profit organizations. These awards, which numbered about 10,000 totaling over \$2.5 billion in fiscal year 1983 were made to contractors and grantees to, among other things, perform program evaluations, provide educational services and conduct research, development and training.

OIG provides the Department with a variety of audit services relating to these contracts and grants, including audits of cost proposals and contract closing statements. These services are provided directly by ED-OIG, or by other Federal audit offices or independent public accounting firms under contracts administered by the OIG.

During this reporting period, OIG issued 173 contract and discretionary grant audit reports that recommended the disallowance of \$1.6 million and questioned costs of \$8.4 million. In addition, we identified potential cost avoidances of about \$4.1 million on pre-award audits. Contract and grant audits continue to be effective in identifying and avoiding potential waste and abuse in the Department's procurement and grant-making activities, as illustrated in the audits discussed below.

### a. \$2.2 Million in Questioned and Disallowed Costs Identified in Closeout Audit

We recently completed an audit of a grantee that had received \$4.9 million in funds from four Federal departments. The review disclosed that the grantee had drawn Federal cash of \$135,000 in excess of claimed expenditures. Another \$745,000 of the total costs claimed was found to be unallowable. These costs related to salaries and travel expenses of employees who were not working on federally-sponsored programs. Our recommendation was that the combined total of \$880,000 be immediately refunded to the appropriate Federal departments.

In addition, a total of \$1,286,000 in claimed costs was questioned for lack of supporting documentation and/or definitive allocability to project activities. We recommended that the grantee refund the \$1,286,000 in questioned costs, unless it could provide adequate documentation to support its claim.

b. Pre-award Audit Identifies \$892,000 in Questionable Costs

We conducted an audit of a cost proposal for \$4.6 million submitted by a profit-making corporation to operate a multiple data entry system. The audit identified about \$892,000 in proposed costs that were of a questionable nature. The report recommended that the contracting office reconsider the need and justification for such proposed costs.

Specifically, we found that the proposed unit cost for the data entry forms and instruction booklets exceeded the contractor's actual cost, and that the volume of data entry forms and instruction booklets to be used was overstated. Additionally, proposed labor costs of about \$787,000 which were not applicable to the Multiple Data Entry System were improperly included in proposed amounts for acquisition of forms, distribution of forms, data entry, and other incremental costs.

c. Propriety of Fees Proposed in Major ED Contract Questioned in Preaward Audit

A preaward audit of a firm, fixed-price proposal totaling about \$17 million for operation of the Pell Grant Multiple Data Entry System for the Office of Student Financial Assistance disclosed serious concerns regarding: reasonableness of proposed fees and related costs; relationship of the prime contractor with the subcontractor; and methods in use to negotiate the fees and costs proposed.

Specifically, we found that the fee proposed by the prime contractor for its work was exorbitant, amounting to \$1.6 million or about 468 percent of its costs. This condition was attributable in part to improper inclusion of pass-along subcontract costs of about \$15.5 million in determination of the prime contractor's fee. Although legally separate entities, the relationship of the prime contractor with the subcontractor is in reality an interlocking relationship. Therefore, pass-along costs of the subcontractor were inappropriately used to determine the prime contractor's fee. Additionally, the proposal submitted by the contractor was not considered adequate or auditable.

We recommended that the Department negotiate separately with the subcontractor, and/or take action to sharply reduce the \$1.6 million fee proposed for the prime contractor. We also recommended that the contract be negotiated on other than a fixed-price basis.

## E. AUDIT RESOLUTION AND RECOVERY OF FUNDS

### 1. Resolution of Audit Reports

There were no unresolved audits over six months old at the end of this reporting period, except for those few on which additional information is being obtained. This represents the second six-month period in which all audits over six months old were closed. During this period, the Department's audit resolution directive was issued, and training on implementation of the directive was provided to all Departmental officials involved in audit resolution. OIG has worked closely with ED management in developing necessary training for personnel involved in audit resolution. The training, which was provided in two workshops, covered all aspects of the audit resolution process and should enable continuation of the good record attained in audit resolution over the last two reporting periods.

Audit resolution by major action office is shown in the following schedule. As in prior periods, the Office of Postsecondary Education had by far the greatest activity because of the hundreds of audit reports received each year on postsecondary institutions participating in student financial assistance programs.

The total of 1,037 unresolved audits on hand at the end of this period includes questioned or disallowed costs of \$68.9 million.

#### AUDIT RESOLUTION ACTIVITY April 1, 1983 to September 30, 1983

<u>Action Office</u>	<u>Unresolved Audits on Hand as of April 1, 1983</u>	<u>Action Audits Issued This Period</u>	<u>Audits Closed This Period</u>	<u>Unresolved Audits on Hand as of September 30, 1983</u>
Postsecondary Education	943	1,014	1,045	912
Assistance Management and Procurement Services	83	103	89	97
Special Education and Rehabilitative Services	12	4	11	5
Elementary and Secondary Education	9	9	10	8
Educational Research and Improvement	6	9	7	8
Vocational and Adult Education	2	9	4	7
<b>TOTALS</b>	<u>1,055</u>	<u>1,148</u>	<u>1,166</u>	<u>1,037*</u>

\*Does not include 15 reports being held for additional audit work.

## 2. Resolution and Recovery of Disallowed or Questioned Costs

As noted in the preceding schedule, a total of 1,166 action reports were closed (resolved) during this six-month period. In resolving these audits, ED management sustained \$14 million, representing about 47 percent of the \$29.6 million recommended for disallowance or questioned by OIG in these reports. In addition to the \$14 million sustained, program officials identified additional amounts for recovery during the resolution process, bringing the total recoverable to \$15.9 million. Amounts recovered this period on audits resolved amounted to \$15.5 million.

## F. STATUS OF PRIOR AUDIT RECOMMENDATIONS

As of the end of this period, all previous recommendations reported have been resolved with the exception of those few on which additional audit information is being gathered at the request of program officials.

## G. OTHER AUDIT MATTERS

### 1. Implementation of OMB Circular A-102, Attachment P

The Office of Inspector General has continued to be actively involved in the implementation of OMB Circular A-102, Attachment P. At this time, the Department of Education is designated as the cognizant agency for four States, 102 State agencies and 31 various local agencies. OIG has worked to achieve closer partnership with these organizations and to promote implementation of the single audit concept as required by the OMB Circular.

These continuing efforts have resulted in significant progress toward full implementation. Each of the four States for which ED has been assigned cognizance has initiated single audits, one of which has been completed. A total of 88 State agencies have begun efforts to implement the single audit requirements. Further, 27 of the 31 local entities are in the process of implementing the requirements. Our goal during the next six months is to gain assurance from the remaining State and local entities that they also are making progress to achieve full compliance.

For this period, a total of 20 single audit reports have been issued on entities for which ED is cognizant. In addition, OIG has received nine single audit reports which include coverage of ED funds for which other Federal agencies were cognizant.

### 2. OIG Involvement in Peer Reviews

During this reporting period, the OIG has actively participated in a process designed to provide the public with assurances as to the professional competence of governmental audit organizations. This

process, known as "peer review", represents another activity involving close cooperation between the OIG and other governmental entities. This process involves an in-depth review of an audit organization's practices and policies by a team of experienced professional auditors from other organizations.

OIG staff participated in two peer reviews as peer review team members. These reviews focused on State government audit organizations, an important focus for OIG since these organizations play a major role in implementation of the single audit concept contained in OMB Circular A-102, Attachment P. These reviews resulted in recommendations that will improve the ability of each of the State audit organizations to meet governmental audit standards.

## CHAPTER II

### INVESTIGATION ACTIVITIES

#### A. INTRODUCTION

OIG investigations during this period again showed significant results. Indictments and convictions were returned against various school officials, owners and student beneficiaries. In addition, fines and restitutions during this period amounted to approximately \$186,000. Cost avoidance/savings amounted to about \$388,000. These results, coupled with the investigative initiatives described in Chapter III, demonstrate the OIG's commitment to detecting and preventing fraud and abuse in the programs of the Department.

#### B. SUMMARY STATISTICS

Following are summary statistics showing results of investigation activities.

#### Comparative Schedule of Investigation Activity

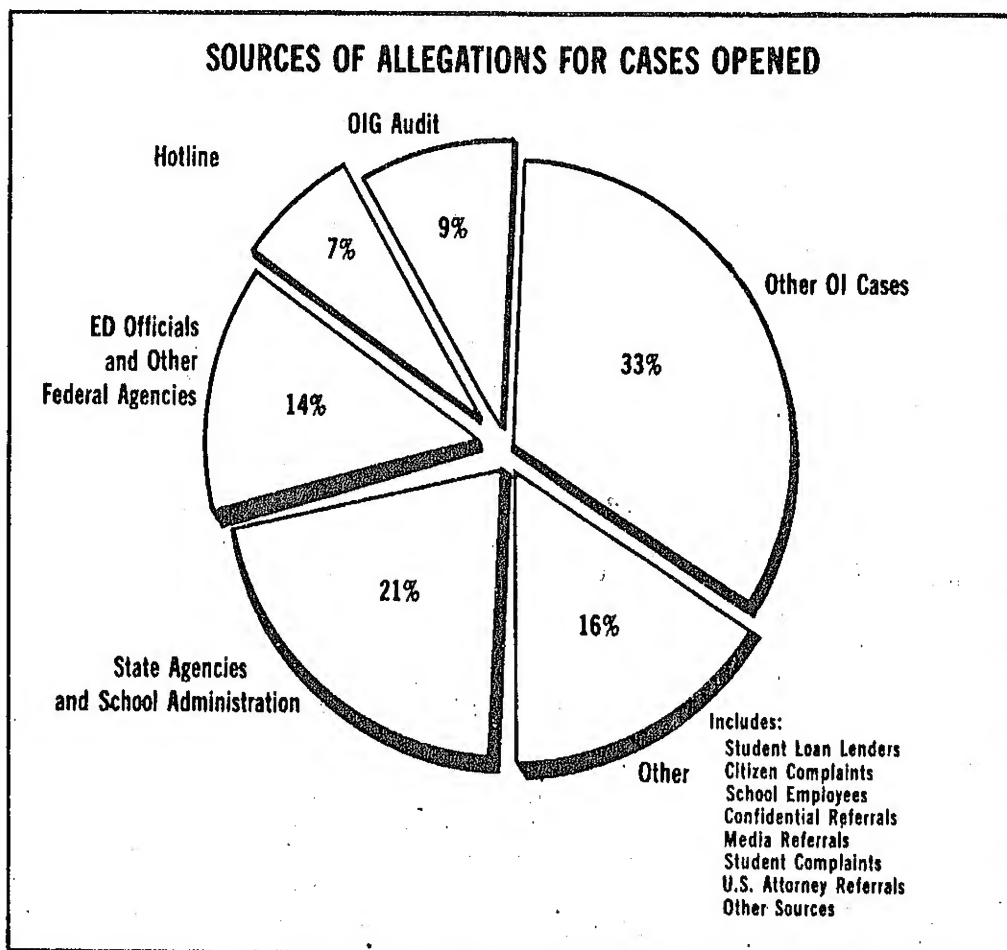
	<u>Six-Month Periods Ending</u>		<u>FY 83</u>
	<u>3/31/83</u>	<u>9/30/83</u>	<u>Totals</u>
Cases Opened	264	220	484
Cases Closed	119	170	289
Cases Referred for Prosecution	110	140	250
Cases Accepted	91	97	188
Cases Declined	19	43	62
Indictments/Informations	83	105*	188
Civil Filings	1	12	13
Convictions/Pleas	67	54	121
Fines	\$ 68,000	\$ 12,000	\$ 80,000
Restitutions	\$477,000	\$174,000	\$651,000
Settlements/Judgments	\$ 25,000	\$ -0-	\$ 25,000
Cost Avoidance/Savings	\$116,000	\$388,000	\$504,000

\*Includes seven pretrial diversions.

Following are summary data on the number of cases opened, closed and active for the period April 1, 1983 through September 30, 1983.

Cases active March 31, 1983	504
Cases opened this period	220
Cases closed this period	170
Cases active September 30, 1983	554

OIG receives allegations from various sources which lead to the initiation of investigations. The following chart is a breakdown by source of allegation of OIG cases initiated during the period. As in the previous period, the majority of investigative cases opened, approximately 90 percent, involve the student financial aid programs.



### C. HIGHLIGHTS OF SIGNIFICANT INVESTIGATIONS

This section provides highlights of our investigative activity this period, an update of the alien project and summaries of other cases which have been successfully completed.

## 1. Alien Project

ED-OIG continued to work closely with the Immigration and Naturalization Service and the Criminal Division, Department of Justice, in investigating and prosecuting aliens who have fraudulently received student aid. During this period a total of 53 indictments/informations were returned by Federal and State grand juries on alien cases. The following cases typify investigations conducted under the alien project.

- o In August, an individual was charged in a 22-count indictment with masterminding a complex scheme to defraud the student financial aid programs. The individual recruited six women to participate in the scheme and supplied them with various phony identification documents in order to establish their eligibility for student aid.
- o Also in August, nine arrest warrants were issued for foreigners who had functional diplomatic status with a foreign consulate. An OIG investigation disclosed that the individuals had fraudulently received about \$40,000 by falsely claiming citizenship eligibility. Four of the individuals are fugitives and four of the five arrested have been indicted.
- o During the last week of September, 24 aliens were indicted in a State court for perjury and theft of Federal and State educational grants and student loans totaling \$101,000.

Since the initiation of this project, the OIG has had a total of 209 indictments returned against aliens. These individuals fraudulently received nearly \$1,000,000 in student financial aid. More than half of this total involved funds from the Guaranteed Student Loan program.

## 2. Other Cases Successfully Prosecuted or Accepted for Prosecution

- o Twenty-five individuals have been charged with fraud against the U.S. Department of Education and the State's guaranteed student loan program. The indictments and arrest warrants charged the subjects with fraudulently obtaining student loans in amounts ranging from \$1,500 to \$7,500. To date the fraud, which occurred at four local colleges, involves approximately \$125,000. Many of the subjects of the investigation allegedly conspired together to submit the false applications.



- o In April 1983, an assistant financial aid director of a State university was indicted on four counts of mail fraud and four counts of student financial aid fraud. A former employee of the financial aid office was also indicted on three counts of mail fraud and two counts of student financial aid fraud. The assistant director received about \$12,500 and the employee received over \$5,000 in guaranteed student loans by applying for loans as students.

In August, the assistant director was sentenced to four years' suspended sentence and five years' probation, and was ordered to make restitution of \$15,000 plus interest within a five-year period. The employee of the financial aid office was sentenced to three years' probation and ordered to make restitution in the amount of \$10,000.

- o A 42-count indictment was returned in April 1983 against a former dean of a theological institution involving 40 counts of mail fraud and two counts of making false statements. An arrest warrant was issued and the former dean remains in a fugitive status. The indictment specified that \$795,000 in Pell grant funds were awarded to ineligible students.
- o In April 1983, a student pleaded guilty to a misdemeanor for fraudulently obtaining a \$2,500 guaranteed student loan. The plea came as the result of a plea agreement in which the original felony charge was reduced to a misdemeanor and the student agreed to make immediate repayment of the loan.
- o In May 1983, a woman pleaded guilty to 14 counts of bank fraud. She used 14 fictitious identities in obtaining \$17,000 in guaranteed student loans. She actually applied for \$38,000 but action by the Office of Inspector General prevented the disbursement of \$21,000. In June 1983, she was sentenced on 14 counts of bank fraud. She received a three year suspended sentence and three years' probation.
- o In August 1983, the owner of a beauty school and the school manager each pleaded guilty to a one-count information charging them with conspiracy to defraud the U.S. Department of Education. The pair admitted to drawing Title IV student financial aid funds in the names of students who did not attend the school and falsely certifying that they had attended the school. The fraudulently obtained money was used to cover the financially troubled school's operating expenses.

- o An employee of a university pleaded guilty to an information charging one count of student financial aid fraud and entered into a plea agreement in August 1983. The employee fraudulently received \$15,000 in graduate level guaranteed student loans by using a false name and social security number and by forging the school certification on the application. She was sentenced to serve six months at a half-way house and four and a half years' probation, and was ordered to make full restitution.
- o On September 21, 1983, a one-count indictment was returned against a woman who had fraudulently received \$5,000 in Guaranteed Student Loan funds by submitting false statements on the application. She had previously been convicted for a similar offense.
- o On September 9, 1983, an individual was sentenced to five years' probation after pleading guilty to mail fraud and aiding and abetting. A joint OIG/FBI investigation disclosed that the subject and an accomplice were defrauding the Guaranteed Student Loan program by submitting false applications utilizing fictitious names.
- o In August a 37-count information was filed against an individual for fraudulently obtaining about \$1,800 in College Work-Study funds. The subject of the investigation had forged the signature of his supervisor on a number of College Work-Study time sheets which were then submitted for payment.
- o An ED employee was found guilty of two counts of false statements in a Federal district court. The employee had submitted false claims in excess of \$2,000 on his travel voucher for a household move. He was sentenced to serve two concurrent two-year prison terms, which were suspended, and was placed on three years' probation. He was also ordered to pay a \$750 fine and submit to psychological treatments for counseling. The matter was referred to Department officials and the employee was dismissed.

#### D. OTHER INVESTIGATION MATTERS

OIG investigations have had increasing impact on the detection and elimination of fraud and abuse in Education-funded programs. A previously reported election fraud investigation led to a letter from the State department of education to each superintendent. The letter stressed the importance of maintaining the integrity of Federal education allocations.

Another investigation has led to the establishment of a State fraud and abuse committee with the object of detecting and preventing misuse of loan monies. The committee compiled a list of preventive measures that educational institutions and lenders can implement to assist them in ensuring the integrity of the Guaranteed Student Loan program.

## CHAPTER III

### MANAGEMENT IMPROVEMENT ACTIVITIES

#### A. INTRODUCTION

Many of the audits and investigations undertaken by OIG result in improved management by identifying problem areas and recommending changes to systems or procedures that had contributed to fraud, waste or inefficiency. In addition, other OIG activities such as those described below also contribute to improved management.

#### B. MANAGEMENT IMPLICATION REPORTS

As reported previously, the OIG recently established internal procedures requiring the preparation of a "management implication report"(MIR) whenever an investigation uncovers a significant program deficiency or incident of mismanagement.

One MIR containing significant recommendations for management improvements already has been favorably received and acted upon by an ED program office. The MIR resulted from an investigation which identified that a beauty college had continued to draw down and disburse Federal funds in violation of regulations for about four years after losing its accreditation, resulting in a liability of about \$262,000. The MIR identified several weaknesses which allowed this to happen, chiefly a lack of formal reporting requirements for accrediting agencies and inadequate internal coordination and tracking by the program office. The Office of Postsecondary Education responded favorably to the recommendations for internal control improvements contained in our MIR.

#### C. OIG INTEGRITY GUIDES

Inspector General integrity guides are prepared for Departmental employees, recipients of program funds or others, and are designed to increase awareness of their responsibility for addressing waste, fraud and abuse in the administration of the Department's programs.

During this reporting period, we issued our third integrity guide, dealing with the Department's student financial assistance programs (see Appendix 2 for copy). Copies were distributed to over 6,000 postsecondary institutions. Through the use of actual case examples, the guide alerts school officials to various types of fraud perpetrated against the programs, and how to appropriately address them. The OIG has already received a number of complaints of wrongdoing from institutions as a result of the integrity guide, thus fulfilling its purpose of increasing awareness.

#### **D. INTERNAL CONTROL REVIEWS**

The OIG continued to work closely with the Department in carrying out the requirements of the Federal Managers' Financial Integrity Act and Office of Management and Budget Circular A-123.

During this period, we provided technical advice and assistance to management personnel on the requirements and how they apply to the Department. We also reviewed and provided comments on training materials to be given to all Department managers involved in the internal control review effort. Additionally, we reviewed and provided comments on the Department's quality assurance program and participated in the conduct of six internal control reviews of selected programs and operations of the Department. Reports on the reviews, which cover various aspects of the financial accounting systems and other program activities, will be issued during the next semi-annual reporting period.

#### **E. OTHER MANAGEMENT IMPROVEMENT ACTIVITIES**

In addition to the activities discussed above, OIG has also continued its efforts to encourage State guarantee agencies to take a more active role in preventing, detecting and investigating fraud and abuse in their administration of the Guaranteed Student Loan program. We are also continuing to move forward on implementation of our prior participation project and on our cooperative initiatives with the Office of Postsecondary Education. Each of these initiatives was described in our previous semi-annual report.

CHAPTER IV  
OTHER MATTERS

**A. COMPLAINT CENTER**

During this period, we received a total of 86 complaints, including four referred by the General Accounting Office. Since establishing the OIG Hotline in May 1980, we have received 544 complaints, 118 of which were referred by GAO. To date, a total of 448 have been closed and 90, or about 20 percent of those closed, have been substantiated. For this reporting period, 28 of 108, or 26 percent of complaints closed, were substantiated, resulting in corrective actions by the Department.

In one complaint received, it was alleged that a State department of education had misused grant funds provided through the migrant education program. An OIG audit, discussed in detail on page I-13, substantiated many of the allegations, finding most significantly that the district had employed improper procurement practices in awarding subcontracts. As a result of these and other deficiencies noted, we recommended that the State agency refund about \$324,000.

Several complaints substantiated this period involved allegations of fraud and abuse in the student aid programs. A typical example involved an allegation concerning a student who had provided false parental income information in order to fraudulently qualify for Pell grant funds. Investigation by the OIG substantiated the allegation, disclosing that the student had intentionally omitted pertinent financial information. Although prosecution was declined, based on the OIG findings, the school involved was able to recover the funds from the student.

**B. REVIEW OF LEGISLATION AND REGULATIONS**

The Inspector General Act of 1978 (Public Law 95-452), Section 4(a)(2), requires Inspectors General to review existing and proposed legislation and regulations relating to programs and operations of their Departments. Reviews are made to determine the impact of such legislation and regulations on the economy and efficiency of programs and operations financed by the Department, and on the prevention and detection of fraud and abuse in these programs and operations. During this reporting period, we reviewed 77 pieces of legislation and 63 proposed regulations.

**C. PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY**

We are participating in a number of interagency projects and committees initiated by the President's Council on Integrity and Efficiency which involve Government-wide efforts. Following is a listing of the projects and committees in which we are engaged.

- o Performance Evaluation Committee
- o Computer Audit Committee
- o Training Committee
- o Long Term Computer Match Project
- o A-102, P Evaluation Project
- o Letter of Credit Project

#### D. SUBPOENAS ISSUED

The Inspector General is authorized to issue administrative subpoenas to require the production of information necessary for the performance of mandated responsibilities. During this reporting period, one administrative subpoena was issued.

#### E. STAFFING AND BUDGETARY CONSTRAINTS

During most of this period, as in all prior periods, OIG has been working under a full-time equivalent personnel ceiling of 304 positions. On September 15, the Department increased our ceiling to 314 positions. Of the 314 authorized positions, 290 were filled as of September 30, 1983. This represents an increase of nine from the last reporting period.

The OIG continues to experience severe staffing and funding shortages. Since OIG's inception, the final budgeted amounts in each year of our operation have been consistently lower than the amount of our initial request. Moreover, the budget amounts received have never been sufficient to support our approved staffing ceiling. This has resulted from a combination of factors, including a series of continuing resolutions and budget cuts by the administration and the Congress. The problem has been exacerbated in fiscal year 1984, since the maximum authorized for the OIG under the Omnibus Budget Reconciliation Act of 1981 is \$12,989,000, or about \$1.4 million below the President's budget. The authorization level of \$12,989,000 will fund 272 full-time positions or less, a figure which is 42 less than currently authorized and 18 less than actually on board at the present time.

We are presently working with Departmental officials to alert the Congress concerning our need for additional funds in fiscal year 1984. In the meantime, we are faced with continuing budget restraints which are severe and impact greatly on our ability to achieve the mandates of the Inspector General Act of 1978.

REPORTING REQUIREMENTS

The specific reporting requirements as prescribed in the Inspector General Act of 1978 are listed below.

<u>SOURCE</u>	<u>LOCATION IN REPORT</u>
<u>INSPECTOR GENERAL ACT</u>	
Section 4(a)(2) -- Review of Legislation and Regulations	Page IV-I
Section 5(a)(1) -- Significant Problems, Abuses, and Deficiencies	Page I-4 Page II-2
Section 5(a)(2) -- Recommendations with Respect to Significant Problems, Abuses and Deficiencies	Page I-4
Section 5(a)(3) -- Prior Significant Recommendations Not Yet Implemented	Page I-19
Section 5(a)(4) -- Matters Referred to Prosecutive Authorities	Page II-1
Section 5(a)(6) -- Listing of Audit Reports	Page V-6
Section 5(a)(5) and 6(b)(2) -- Summary of Instances Where Information was Refused	(There were no instances where information was unreasonably refused.)



INSPECTOR GENERAL  
INTEGRITY GUIDES

## Student Financial Assistance

April 1983

The purpose of these guides is to increase employee and public awareness of opportunities for preventing and eliminating fraud, waste, and mismanagement in the conduct of official business and in the administration of Department of Education (ED) programs. The guides are distributed periodically to ED program and administrative personnel, and to other concerned parties.

This issue will address fraud in the Student Financial Assistance (SFA) programs administered by ED, and will be distributed to program personnel as well as participant postsecondary institutions.

As the costs of postsecondary education and the size of student populations have increased, the SFA programs have grown as well. What began in 1958 with the modest National Defense Student Loan program has evolved into five major programs of direct financial assistance to students of higher education. They are:

- o Pell Grants (formerly the Basic Educational Opportunity Grant program)
- o Guaranteed Student Loans (GSL), formerly included Federally Insured Student Loans (FISL)
- o College Work Study (CWS)
- o Supplemental Educational Opportunity Grant (SEOG)
- o National Direct Student Loans (NDSL)

The Pell and GSL programs are administered

by ED, while CWS, SEOG, and NDSL (the "Campus-Based" programs) are administered by participating schools through funding by ED.

The grant programs provide awards to individual students which are not required to be repaid. CWS allows students to work at schools or in neighboring communities in order to earn SFA funds. The NDSL and GSL programs offer low-interest loans to be repaid after graduation within stated time periods. All SFA programs are offered on the basis of need which is determined by income, assets, cost of education and other related factors.

The GSL program receives the largest amount of ED funding, approximately \$3 billion. At just under \$2.5 billion, the Pell Grant is the second largest SFA program. Campus-Based programs have a funding level of just over \$1 billion.

As the dollar amounts are large, so is the potential for unscrupulous individuals to attempt to defraud the Government. For that reason, personnel at the colleges, universities, proprietary schools and Federal offices who work with Student Financial Assistance must be ever alert to the kinds of fraud perpetrated against SFA programs, and mindful of ways to detect and prevent such activity. Through the use of actual case histories, this Guide will briefly discuss the types of fraud which are most prevalent in these programs. By being aware of the types of fraud and by alerting the Office of Inspector General (OIG) to suspected instances of fraudulent activity, we can work together to actively and aggressively eliminate fraud in SFA programs.

## THEFT AND MISUSE OF FUNDS

Many of the large dollar loss cases are those involving fraud by dishonest officials of educational and financial institutions. Investigations have documented fraud by SFA administrators including financial aid officers, school owners, or other school personnel. Types of fraud have included theft through aid for non-existent or fictitious students, use of funds for unauthorized purposes, and theft of funds through embezzlement.

### Case Example

Numerous student complaints prompted the Division of Certification and Program Review (DCPR) to conduct an on-site review of SFA programs at a small chain of vocational schools. The findings disclosed numerous questionable student records bearing suspicious similarities such as handwriting, income amounts, etc., as well as misappropriation of substantial amounts of Pell, GSL, and NDSL funds. The information was referred for investigation of possible criminal violations. Investigation disclosed numerous forged checks and payments of Federal funds for non-existent students. Further, SFA funds were not deposited into specially designated Federal accounts, but were deposited into commercial accounts and then used by the school owner for a number of personal interests. Subsequently, the Department took civil action against the owner under the False Claims Act. As a result, the Department received reimbursement of over \$1 million in restitution and punitive damages.

### LENDERS RECEIVING "KICK BACKS"

Fraud by persons associated with financial institutions have included "special relationships" between lenders and schools whereby kickback payments are required from schools for guaranteed participation, or through conspiracy to report fictitious students and/or false refunds due based on dropouts. These kinds of cases are usually complex and personnel must be constantly alert and aware of the nature of such collusion. Unusually large transfers of loans notes between lenders and/or exorbitant dropout rates may indicate a need for closer review and monitoring by

program personnel.

### Case Example

An investigation revealed "special relationships" between certain FISL lenders and schools. A number of banks, all owned by a parent corporation, required the schools to pay kickbacks as preconditions to the banks' agreements to make FISL's available to students of the schools. To conceal the scheme from the Government, the kickbacks were disguised as payments for "consulting services" or, in some instances, as stock purchases. Other irregularities included questionable transfers and purchases of millions of dollars of FISL notes between banks. Indictments filed resulted in guilty pleas to Mail Fraud (a frequent charge when false statements are involved) by the parent corporation. In addition, corporation officials pleaded nolo contendere (no contest) to violations of SFA Fraud. The corporation was fined, and the officials were fined and imprisoned.

### FICTITIOUS STUDENTS

While much student fraud is committed through individual efforts, there have also been cases where entire groups of persons have "conspired" to perpetrate fraud against SFA programs. We are taught by these cases to be observant for multiple submissions of applications bearing information which is suspiciously similar for each of the applicants. Personnel whose positions involve reviewing and processing applications and related documents have a particular advantage in this regard, and should not hesitate to follow up on and report such an irregularity.

### Case Example

A number of persons participated in a scheme which resulted in the submission of over 30 fraudulent GSL applications in order to illegally receive over \$100,000 in loan funds. The persons had all applied as being students at a particular postsecondary institution. Their applications all contained signatures by the supposed financial aid officer at the school. Alert bank personnel noticed an unusually large number of GSL applications

being submitted based on attendance at the particular institution. Investigation disclosed that the school had no record of the "students." Further, the name signed as financial aid officer on the applications could not be identified as anyone who had ever been employed at the school. The case resulted in multiple arrests and indictments under violations of Bank Fraud, as well as two indictments under False Statements and Papers. All who were indicted pleaded guilty and were required to make restitution of illegally obtained funds in addition to sentencing.

#### FALSE ELIGIBILITY STATEMENTS

SFA fraud can occur during the application processes for aid when persons who are not eligible misrepresent their status. Eligibility factors which can be affected through misrepresentations include schools previously attended, degrees obtained, hours worked (CWS), and U.S. citizenship.

##### Case Example

Investigation disclosed that in applying for and receiving nearly \$5,000 in GSL and Pell funds, a foreign national had falsely claimed to be a U.S. citizen. (Regulations governing the GSL and Pell programs specifically prohibit the issuance of such funds to students who are not citizens or permanent residents of the U.S.) The subject was indicted on one count of mail fraud and one count of fraudulently obtaining Federal funds, pled guilty, and was subsequently sentenced (suspended) and put on probation. Additionally, the student was ordered to make full restitution of funds fraudulently received and to perform a number of hours of public service work.

#### MISSTATED "NEEDS"

As stated earlier, most of the programs require that a student show "need" for financial assistance. This determination of "need" is based on information provided by the applicant. Therefore, the potential is great for inaccurate statements and false information by applicants.

Several types of falsifications can result in receipt of aid by ineligible recipients due to inaccurate needs determinations.

One of the more prevalent is the misstatement of income or dependency on parental contribution. The situation is hampered by the lack of verifying data available to SFA reviewers. Thus, ineligible persons have received SFA funds illegally, depriving others who have legitimate needs for such assistance.

##### Case Example

Information was received that a Pell recipient had substantially misstated income on grant applications for three consecutive years. Investigation disclosed that for all three years the subject had reported income to be significantly less than that recorded on income tax records. As a result, the individual had illegally received over \$3,000 in Pell funds. Had truthful information been reported, the person would not have been eligible for any Pell awards. The individual admitted to the falsifications and was subsequently charged with one count of Mail Fraud. Upon pleading guilty, the subject was sentenced and ordered to make full restitution.

#### MISUSE BY STUDENTS

Students who receive SFA funds sign written statements affirming that the proceeds will be used for educational related expenses only. We find, unfortunately, that some students drop out of school after receiving their Pell or GSL checks and then use the funds for other purposes. Many of these students do not take seriously the fact that by violating the conditions of the "statement of educational purpose" they are violating the law by misusing Federal funds.

##### Case Example

A student applied for and received a GSL for approximately \$1,300. Upon receipt of the loan check, the borrower did not pay the tuition balance due, but instead dropped out of school and used the loan proceeds for personal reasons. The school subsequently notified the lender that the student had dropped out of school while owing in excess of \$900 in tuition. Since the loan proceeds were not used for educational purposes, a criminal complaint was filed charging the student with "Theft by Failure to Make Required Disposition of

Funds Received." The student borrower was found guilty and, in addition to sentencing, was required to make full and immediate restitution of the loan funds.

#### YOUR RESPONSIBILITY

Many administrative controls designed to prevent SFA fraud, waste and mismanagement are already in procedures such as information management and validation/monitoring efforts. Employees and managers of these programs are encouraged to identify those areas where controls can be improved through system or procedural changes. Improved controls can often prevent irregularities which may result in fraud and waste before they occur. Suggestions for improvements should be made to supervisors. Institutional personnel are encouraged to forward any suggestions to their Regional Office of Student Financial Assistance.

However, if you are aware of any irregularity which may potentially involve criminal violations, you should report the information to the Office of Inspector General at the regional or headquarters offices. Such reports may also be made (anonymously or in confidence) to the OIG Hotline. The Hotline telephone number is (202 or FTS) 755-2770. Or, reports may be made in writing and sent to:

Inspector General Hotline  
PO Box 23458  
Washington, DC 20024

We are interested in assuring that the programs are administered efficiently and economically. It is in no one's best interest when undeserving individuals use SFA funds which are intended to assist the less fortunate in bettering their lives through furthering their education.

GPO 899-281

Federal Audits of Education Department Programs  
April 1, 1983 Through September 30, 1983

Section 5(a)(6) of the Inspector General Act requires a listing of each audit report completed by OIG during the reporting period. A total of 122 audit reports were completed by Federal auditors, 65 with audit findings and 57 without findings. These reports are listed below:

A. Audit Reports With Findings

<u>ACN NUMBER</u>	<u>ENTITY NAME</u>	<u>ISSUE DATE</u>
01-30009	HAWTHORNE COLLEGE	04/83
01-30010	WILFRED ACADEMY BOSTON	08/83
01-30018	COUNTY SCHOOLS INC	04/83
01-30025	CRC ED HUMAN DEV INC	07/83
01-30028	MASS DEPT ED MIGRANT ED	06/83
01-30033	VERMONT STUDENT ASSISTANCE CORP	08/83
01-30035	LA CASA DE PUERTO RICO INC	07/83
02-30003	MONTCLAIR BD OF ED	06/83
02-30006	CITY UNIVERSITY OF NEW YORK	09/83
02-30009	EMPIRE TECHNICAL SCHOOL	06/83
02-30013	OFFICE OF STUDENT FINANCIAL AID	09/83
02-30026	NASSAU COMMUNITY COLLEGE	09/83
02-30032	HAITIAN AMER CULTURAL FOUNDATION	09/83
03-30001	PHILA SCHOOL DIST	07/83
03-30004	WV ST DEPT OF EDUC	09/83
03-30005	SAWYER SCHOOL	09/83
03-30006	ELIZABETH BRANT SCH OF BUS	08/83
03-30007	OSFA DCPR- WASHINGTON INT. COL.	09/83
03-30020	AMER ASSOC OF COMM & JR COLLEGES	05/83
03-31227	CENTER FOR LAW & SOCIAL POLICY	05/83
03-31231	ROY LITTLEJOHN ASSOC INC	06/83
04-30004	MISSISSIPPI VOCATIONAL ED	07/83
04-30005	ALABAMA VOCATIONAL ED	08/83
04-30007	TN VOCATIONAL ED	04/83
04-30023	TN ST UNIV TITLE III	05/83
04-30024	TN ST UNIV TRIO	05/83
04-30025	MOREHOUSE COLLEGE TITLE III	05/83
04-30027	REG IV OSFA COLLECTION ACTIVITY	06/83
04-30041	LIFE CHIROPRACTIC COLLEGE	07/83
04-30042	MASSEY BUSINESS COLLEGE	08/83
04-30055	HELENA DYE & FLANARY BEAUTY COLLEGE	09/83
04-39554	RESEARCH TRIANGLE INSTITUTE	06/83
05-30006	IL STATE LIBRARY LSCA PROG IMPLEM	09/83
05-30009	IL STATE LIBRARY LSCA	06/83
05-30010	PUSH FOR EXCELLENCE INC	07/83
05-30011	PUSH FOR EXCELLENCE INC	06/83
05-30012	PUSH FOR EXCELLENCE INC	09/83
05-30013	PUSH FOR EXCELLENCE INC	07/83
05-30014	PUSH FOR EXCELLENCE INC	06/83

A. Audit Reports With Findings (Cont'd)

<u>ACN NUMBER</u>	<u>ENTITY NAME</u>	<u>ISSUE DATE</u>
05-30021	MICHIGAN DEPT OF ED ESEA 1 ADMIN	05/83
05-30024	MINNEAPOLIS COMMUN COL SFA APPLICAT	06/83
05-31081	UNIV OF WIS - MAD	08/83
06-30003	LOUISIANA STATE LIBRARY SERVICE	06/83
06-30017	UNIV OF ALBUQUERQUE TITLE III&TRIO	09/83
06 30018	OK FLAMING RAINBOW UNIV	08/83
06-30019	OK FLAMING RAINBOW UNIV	08/83
07-30021	GRAND ISLAND SCH. OF BUSINESS, INC.	09/83
07-30022	GRAND ISLAND BEAUTY SCHOOL	08/83
07-30027	CEMREL, INC	05/83
07-30029	LINCOLN SCHOOL OF COMMERCE	08/83
07-30030	CEMREL	06/83
09-30006	SANTA CLARA COUNTY OFFICE OF EDUC	06/83
09-30012	OFFICE OF STUDENT FINANCIAL ASSIST	07/83
09-30019	STANFORD UNIVERSITY	06/83
09-30028	CHILD YOUTH AND FAMILY SERVICES	09/83
09-30051	AS DEPARTMENT OF EDUCATION	08/83
10-30001	MOSES LAKE SCHOOL DISTRICT 161	09/83
10-30003	SEATTLE CENTRAL COMMUNITY COLLEGE	06/83
10-30004	SEATTLE CENTRAL COMMUNITY COLLEGE	08/83
10-30007	FIRST INTERSTATE BANK OF OREGON	09/83
10-30012	ALASKA PACIFIC UNIV (COLL HOUSING)	06/83
10-30016	ROGUE COMMUNITY COLLEGE	04/83
11-30003	REVIEW OF PARKING ALLOCATIONS	07/83
11-30009	REVIEW OF GSL MANUAL INT PAYMENTS	09/83
11-30011	OERI RELOCATION	04/83



B. Audit Reports Without Findings

<u>ACN NUMBER</u>	<u>ENTITY NAME</u>	<u>ISSUE DATE</u>
01-30036	NETWORK OF INNOVATIVE SCHOOLS INC	06/83
02-30033	MONROE BUSINESS INSTITUTE INC	09/83
02-35902	EDUCATIONAL TESTING SERVICE	06/83
02-35903	RESEARCH FOUNDATION - CUNY	06/83
02-35904	SENECA NATION OF INDIANS	06/83
02-35905	COLLEGE ENTRANCE EXAM BD OF N.Y.	08/83
02-35906	CUNY-HUNTER COLLEGE	09/83
02-35907	EDUCATIONAL TESTING SERVICE	09/83
03-30018	INSTITUTE OF MODERN PROCEDURES INC	05/83
03-31225	LAWRENCE JOHNSON & ASSOC INC	04/83
03-31226	DEVELOPMENT ASSOCIATES INC	05/83
03-31230	PINKERTON COMPUTER CONSULTANTS	06/83
03-31232	CARNEGIE MELLON UNIV	06/83
03-31233	EDUCATION TURNKEY SYSTEMS INC	06/83
03-31234	PRC / GOV'T INFORMATION SYSTEMS	08/83
03-31236	NATIONAL CENTER FOR STATE COURTS	08/83
03-31237	ADVANCED TECHNOLOGY INC	09/83
03-31238	APPLIED URBANETICS INC	09/83
03-31239	MC LEOD CORP	09/83
03-31240	VSE CORP	09/83
03-31241	DELTA RESEARCH CORP	09/83
03-31242	INFORMATICS INC	09/83
04-30061	NOXUBEE CO MS LEA	06/83
04-30065	FLORIDA ATLANTIC UNIVERSITY SARRC	06/83
04-30069	FLA INTERNATIONAL UNIV	09/83
04-31076	UNIV OF MIAMI	04/83
04-39553	UNIV OF KY-RESEARCH FOUNDATION	05/83
05-30065	COMM CONS SCH DIST 15 N.W. ED COOP	09/83
05-31216	OHIO ST UNIV RES FOUND	08/83
06-30028	TX INTERCULTURAL DEV RES	09/83
06-30029	NM NATL INST MULTICUL ED	09/83
06-30030	TX AUSTIN ESC	09/83
06-30031	TX ESC REGION I EDINBURG	09/83
07-30009	CHAPTER 2 IMPLEMENTATION-KANSAS	06/83
07-30031	AMERICAN COLLEGE TESTING	07/83
07-30052	UNIV OF KANSAS MED CTR	04/83
07-30064	UNIV OF MISSISSIPPI	08/83
08-30923	UTAH ST UNIV MTN PLAINS REG RES CTR	08/83
09-30025	GARVEY ELEMENTARY SCHOOL DISTRICT	07/83
09-30033	SYSTEMS DEVELOPMENT CORPORATION	07/83
09-30035	SRI INTERNATIONAL	06/83
09-30036	SRI INTERNATIONAL	06/83
09-30037	SRI INTERNATIONAL	06/83
09-30038	SRI INTERNATIONAL	06/83
09-30039	SRI INTERNATIONAL	06/83
09-30041	SRI INTERNATIONAL	06/83
09-30047	UNIVERSITY OF SOUTHERN CALIFORNIA	06/83
09-30049	GARVEY ELEMENTARY SCHOOL DISTRICT	07/83
09-30059	RAND CORPORATION	09/83

B. Audit Reports Without Findings (Cont'd)

<u>ACN NUMBER</u>	<u>ENTITY NAME</u>	<u>ISSUE DATE</u>
09-30060	UNIVERSITY OF GUAM	08/83
10-30018	WA PARENTS ADVOCATING VOC ED GRANT	05/83
10-30019	NERO & ASSOC	05/83
10-30025	U S NATIONAL BANK OF OREGON	09/83
10-30026	U OF OR	07/83
10-30031	INTERFACE CONSULTANTS INC	09/83
10-30035	U OF WA	09/83
12-31040	SRI INTERNATIONAL	05/83

Due to computer error our Semi-Annual Report for the period September 30, 1982 to March 31, 1983 improperly included the following audit report assignment numbers as issued audit reports:

02-30012  
04-30017  
05-30019  
05-30036  
08-30014  
09-30004  
09-30014  
09-30016  
09-30017  
09-30023  
11-30005  
11-30010  
11-30015  
11-30016



SCHEDULE OF ACCOUNTS RECEIVABLE

The Senate Committee on Appropriations' report on the Supplemental Appropriations and Rescission Bill of 1980 directed the Inspectors General to include in their semi-annual reports a summary of the total amounts due their agency or Department, as well as amounts overdue, and total amounts written off as uncollectable during the reporting period.

Note: This information had not been received by OIG at the time the semi-annual report went to press. It will be transmitted to appropriate committees and subcommittees of Congress upon receipt.

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